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## RETROSPECTIVE ANALYSIS OF PUBLIC-PRIVATE PARTNERSHIP IN MUNICIPAL WATER SUPPLY OF UKRAINE

*The article presents the analysis of the results of public-private partnership (PPP) practices in the municipal water supply (MWS) sector of Ukraine. It has been determined that one of the major reasons of unsuccessful completion of PPP projects is the imperfection of concluded contracts. The expediency of wide use of service contracts has been grounded.*

**Keywords:** public-private partnership; municipal water supply; contract.

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## РЕТРОСПЕКТИВНИЙ АНАЛІЗ ДЕРЖАВНО-ПРИВАТНОГО ПАРТНЕРСТВА У КОМУНАЛЬНОМУ ВОДОПОСТАЧАННІ УКРАЇНИ

*У статті представлено аналіз результатів діяльності державно-приватного партнерства (ДПП) в секторі комунального водопостачання (КВ) України. Встановлено, що однією з основних причин невдалого завершення проектів ДПП є недосконалість укладених угод. Обґрунтовано доцільність ширшого використання сервісних контрактів.*

**Ключові слова:** державно-приватне партнерство; комунальне водопостачання; угода.

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## РЕТРОСПЕКТИВНЫЙ АНАЛИЗ ГОСУДАРСТВЕННО-ЧАСТНОГО ПАРТНЕРСТВА В КОММУНАЛЬНОМ ВОДОСНАБЖЕНИИ УКРАИНЫ

*В статье представлен анализ результатов деятельности государственно-частного партнерства (ГЧП) в секторе коммунального водоснабжения Украины. Установлено, что одной из основных причин неудачного завершения проектов ГЧП является несовершенство заключенных договоров. Доказана целесообразность более широкого применения сервисных контрактов.*

**Ключевые слова:** государственно-частное партнерство; коммунальное водоснабжение; договор.

**Introduction.** Currently, at the state level it has been acknowledged that municipal water supply (MWS) of Ukraine is in extremely difficult economic and technical conditions: most of water supply networks are deteriorated, a lot of pump stations need urgent maintenance, leakage in water supply systems is up to 28.9%, specific power consumption on 1 m<sup>3</sup> of the given water is 2.5 times higher than in European countries (Decision of the Ministry of Regional Development, Construction and Housing and Communal Services of Ukraine from 27.06.2013 #37). The World Bank experts confirm that in order to bring our domestic water supply and sanitation systems to European level investments in the amount of 26 bln EUR are needed (MDI, 2013).

The real way out of the current situation at any authority level can be wide involvement of private partners into this MWS sector. Ukraine has already got certain experience in this field, but nowadays it hasn't been systematized, most of the local

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bodies of power and self-government, scientific institutions and water supply system authorities are not being informed in a proper way. Therefore, comprehensive analysis of the abovementioned practices with the purpose of wide use of their gains and avoiding their drawbacks is a crucial scientific task.

**Recent research and publications analysis; unresolved issues.** The diversity of the researches by domestic scientists are devoted to the investigation of municipal housing economy in Ukraine and its reformation by means of implementation of different PPP forms. However, the analysis of the generalized results of PPP practices in the MWS sector, in particular, hasn't been considered.

**The research objective** is to carry out a retrospective analysis of PPP in the MWS sector of Ukraine.

**Key research findings.** According to the data, provided by the first deputy Minister of Regional Development, Construction, Housing and Municipal Economy of Ukraine O.M. Alipov (2012) 39 utilities were functioning in the municipal housing economy on the PPP basis (contracts for shared use, concession and lease), 21 of them – in the sphere of water supply and sanitation. However, in accordance with the data obtained from the Ministry of Economic Development at the end of June, 2013 71 PPP projects were being realized in the water supply out of 160 projects in the state in total (KMU, 2013).

Let's analyze PPP projects in the MWS sector in Ukraine, which were officially assessed by the Ministry for Regional Development of Ukraine. In Odessa the entire property complex of municipal utility (MU) "Odesvodokanal" was transferred into lease to "Infox" (private company) for the period of 49 years from January 1, 2004. At the transference moment the conditions of the utility main assets were reaching the critical point: their deterioration was 55%, leakage in water supply networks reached 42%, debts for power consumption were 25 mln UAH (OECD, 2011a).

According to the contract provisions the leaseholder investment fee into infrastructure modernization and development was 500 mln UAH. During the first 7 years of leasing 1% of the balance value of the main assets of the city water supply system were paid off. The increase of leasing fee was envisaged up to 3% after termination (OECD, 2011a).

Ukrainian Centre of assistance for PPP development pointed out that during 2004–2011 the investments of "Infox" into the infrastructure reconstruction were 467.2 mln UAH, including: 12.6 mln UAH into water purifying station "Dnister"; 271.2 mln UAH into water supply networks; 51.5 mln UAH into water sanitation; 21.4 mln UAH into biological sewerage purifying stations "Northern" and "Southern". Moreover, 68.1 mln UAH were subsidized for the realization of power preservation measures and 42.4 mln UAH – on other purposes (UkrPPP, 2012).

The utility reconstruction and its management optimization, conducted by the leaseholder, provided consumers with 24/7 water supply, secured 100% payments for water sanitation service, reduction of losses in water supply networks by 8% – from 42% in 2003 to 34% in 2011 and reduction of power consumption by 2.8%. This PPP experience was assessed by The Ministry for Regional Development of Ukraine as "neutral" (UkrPPP, 2012).

On March, 23, 2006 in Kirovograd the entire property complex of the MU "Kirovogradvodokanal" was transferred into leasing to the private company "Water

Economy" for the period of 49 years. Nevertheless, debts for taxes into the city budget, to creditors for purchasing water (it is characteristically that from 01.10.2006 its value for "Water Economy" private company increased from 0.53 UAH/m<sup>3</sup> to 0.77 UAH/m<sup>3</sup>, and from 15.01.2008 – up to 0.95 UAH/m<sup>3</sup>), and also for electric power consumption continued to increase (Dymchenko, 2009).

Furthermore, the City Council Executive Committee resolution on tariffs reduction by 10% starting from 01.03.2007 lead to additional losses of almost 2 mln UAH (Dymchenko, 2009). The compensation level of expenditure for water supply service was rather low: on 01.01.2008 it was only 52.1% (Dymchenko, 2009). The tariff raise took place only 01.04.2008: tariffs for households increased from 2.94 UAH/m<sup>3</sup> to 4.66 UAH/m<sup>3</sup>; tariffs for budget institutions were 5.95 UAH/m<sup>3</sup>; for other consumers – 8.61 UAH/m<sup>3</sup> (OECD, 2011b). In total, during 2007 the amount of losses for the private company "Water Economy" was 11137.0 UAH (Dymchenko, 2009), and in February 2008 the leasing contract with "Water Economy" was cancelled (OECD, 2011b).

In October 2006 Lugansk Regional Council took a decision on the transference of the entire property complex of the MU Company "Luganskvoda" (without water supply systems of the towns Alchevsk, Severodonetsk, Lysychansk, Krasnodon and Petrovsk) into concession to "Luganskvoda" (private company) for the period of 25 years. The investment fee of the private operator was 756.7 mln UAH, 500 mln UAH of which were to be paid during the first 5 years of the concession and 256.7 mln UAH more – till 2032 (Dymchenko, 2009). During 3 years of the project infrastructure modernization on the total sum of 100 mln UAH was accomplished (UkrPPP, 2012), which conformed to the corroborated investment programme. Moreover, due to the measures on power preservation 108 mln UAH were saved (UkrPPP, 2012).

Nevertheless, despite the tariffs increase, the enterprise got into debts of 658.7 mln UAH (UkrPPP, 2012) to the private company "Lugansk Energetic Incorporation" for the consumed electric power, and in 2008 the prime cost for water supply service became the highest in Ukraine – 6.66 UAH/m<sup>3</sup> (OECD, 2011b), 52% for electric power consumption (UkrPPP, 2012). According to the Memorandum on Cooperation between the Ministry of Housing and Municipal Economy, Lugansk Regional Administration and Lugansk Regional Council (signed in 2010), 23.9 mln UAH were subsidized from the state budget for infrastructure reconstruction and 21 mln UAH were invested by the concessionaire (UkrPPP, 2012). However, in general, this concessive contract practice was described by the Ministry for Regional Development as negative (Alipov, 2012).

In Berdyansk the MWS system was transferred into concession to the private company "Chysta Voda" (clean water) in Ukrainian for the period of 30 years (the contract allowed for the additional extension of 20 more years (OECD, 2008). According to this contract the concessionaire investment fee was at least 120 mln UAH during the first 15 years of the contract (OECD, 2011b), at least 1.5 mln UAH during the first year (OECD, 2008), no less than 7 mln UAH annually during the following 5 years (OECD, 2008) and at least 9 mln UAH annually in the concluding period (OECD, 2008). The concessive fee had to be paid quarterly, the first one was 296569 UAH (OECD, 2011b). However, the tariff discharge of only 80% for the given

services (Kulikov, 2013) and the inobservance of concessionaire's obligations lead to contract cancellation in May 2011 (UkrPPP, 2012). The results of the project were assessed by the Ministry of Regions as negative (Alipov, 2012).

The comprehensive analysis of the OECD reports (OECD, 2011b; OECD, 2008) confirms that one of the major reasons for unfortunate PPP projects completion in Kirovograd and Berdyansk and unsuccessful results in Lugansk region is the imperfection of the concluded contracts (deficiency in the mechanism of private partner's financial responsibility for non-performance of obligations, generalization of performance indicators). Despite of this, concessive contracts should be accentuated because concessive activity is practically impossible without increasing tariffs for water supply services. Taking into consideration traditional and perspicuous unwillingness of state/local authorities to take such kind of step, it is practically impossible to achieve positive results from the implementation of this PPP form. Therefore, concessive contracts should contain accurate and definite, legally and competently registered obligations, which have to be worked out on the basis of preliminary compromise agreement between state/local authorities, water supply enterprises and city community on one side and private investors on the other. The adherence to those agreements will secure efficiency and effectiveness of PPP projects. In the case of cancelling it will guarantee the absence of durable judicial proceedings which can discredit the very idea of PPP and can form a negative public attitude.

Moreover, the described practices affirm the complexity of implementation of leasing and concession relationships as financially capacious PPP models in the MWS sector because of the number of political, legislative, social and economic factors. Taking into consideration all mentioned above, establishment of the "light" forms of PPP, for instance, service contracts (management contracts particularly) is considered to be reasonable. The experience of their use in other developing countries (OECD, 2009) confirms that being one of the leading PPP forms, they allow achieving essential improvement not only in management but practically of all performance indicators in the MWS sector.

**Conclusion.** This paper presents the accomplished retrospective analysis of PPP projects in the MWS sector in the cities of Odessa, Kirovograd, Berdyansk and the Lugansk region. Although some of them were assessed by the Ministry for Regional Development as negative, it has been determined that each project possessed certain positive practices as well, and one of the major reasons for the contracts cancelling is their imperfection. It has been proposed to use service contracts as one of the most widespread PPP forms in developing countries.

Further research in this direction will be focused on studying the experience of involving international financial organizations into projects' realization in the MWS sector of Ukraine, especially the International Bank of Reconstruction and Development, the European Bank of Reconstruction and Development, the European Investment Bank.

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### КНИЖКОВИЙ СВІТ



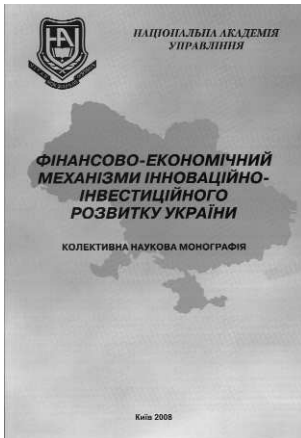
СУЧАСНА ЕКОНОМІЧНА ТА ЮРИДИЧНА ОСВІТА  
ПРЕСТИЖНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД

### НАЦІОНАЛЬНА АКАДЕМІЯ УПРАВЛІННЯ

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**Фінансово-економічні механізми інноваційно-інвестиційного розвитку України: Колективна наукова монографія / Кириченко О.А., Єрохін С.А. та ін.; За наук. ред. д.е.н., проф. О.А. Кириченко. — К.: Національна академія управління, 2008. — 252 с. Ціна без доставки — 25 грн.**

Монографія присвячена актуальній проблемі світової та вітчизняної економічної науки, викладені теоретико-методологічні питання формування стратегії інноваційно-інвестиційного розвитку національної економіки та формування її фінансово-економічного механізму. В основу викладу матеріалу монографії покладені багаторічні дослідження науковців в галузі економічної теорії, фінансів та банківської справи, які були апробовані на сторінках авторитетного журналу "Актуальні проблеми економіки" в 2004–2007 роках. В монографії обґрунтовано шляхи переходу економічної системи України від підприємства до рівня держави на більш високий цивілізаційний рівень за рахунок створення ефективного фінансово-економічного механізму інноваційно-інвестиційного розвитку.